

1           The other point I would like to hear more about  
2   today is meeting the January 1999 deadline. There are at  
3   least two factors that may help us determine whether January  
4   1, 1999 is a drop dead date.

5           First, I am interested in knowing how competition  
6   is effecting universal service. Some have argued that  
7   competition has taken longer than anticipated so there is  
8   less pressure on local rates and thus, more time to develop  
9   a new universal mechanism.

10          Second, as a matter of process, I would be  
11   reluctant to move forward with a final decision if it  
12   appears that some additional work would produce a broader  
13   base of parties supporting the final result. And Mr.  
14   Chairman, with that in mind, I would sure welcome referring  
15   maybe the issue or some of these issues to the Joint Board.

16          Finally, Mr. Chairman, I would like to commend the  
17   state and federal Joint Board staff for their tireless work.  
18   They are the glue that allows the Joint Board Commissioners  
19   to work through incredibly complex problems in a productive  
20   fashion.

21           CHAIRMAN KENNARD: Thank you, Commissioner.  
22   Commissioner Baker.

23           COMMISSIONER BAKER: Mr. Chairman and members of  
24   the Federal Commission, thank you for having us here today.  
25   We appreciate the opportunity.

1           In his February 9 speak to NASUCA, Chairman  
2 Kennard listed what are, by now, the well known eight  
3 principles of universal service reform. And I find them  
4 noteworthy, not for their complexity, but rather for their  
5 simplicity. They exhibit what I would refer to as  
6 articulated intuition. That is, stating clearly and  
7 succinctly truths that one reaches after a thorough review  
8 of the issues. While the list may not be exhaustive, I  
9 think it does hit an awful lot of the bases.

10           And while they do need to be viewed together, I do  
11 have, if you will, two favorites. Item 5 referred to  
12 Federal universal support should be the minimum necessary to  
13 achieve statutory goals. All things being equal, when it  
14 comes to a universal service fund, smaller is better. This  
15 implies efficiency in funding contribution, methodology and  
16 distribution. And hopefully, minimizes the distorting  
17 effect that such funds can have on otherwise efficient  
18 markets.

19           My other "favorite" is Item 6 which states the  
20 Federal and state universal support mechanisms should  
21 collect contributions in a competitively neutral manner.  
22 Universal service funding need not be incompatible with the  
23 development of competition in local markets. And such  
24 things as portability of support should see CLECs begin to  
25 serve customers, will be increasingly important issues.

1           Ideally, competition would drive down prices  
2 enough to offset increases that would otherwise occur as  
3 prices in many area move toward costs. In those cases where  
4 costs are higher than current prices.

5           However, local competition, particularly  
6 residential, is far less developed than was envisioned when  
7 the Telecom Act became law two and a half years ago. Today,  
8 we barely see penetration in residential markets in urban  
9 areas. And we see virtually no penetration for local  
10 competition in residential market in rural and other non-  
11 urban areas.

12           It is therefore all the more important to insure  
13 that in designing universal service support, be that high  
14 cost funds, schools and library fund, addressing rural  
15 carriers or as is the case today, non-rural carriers, that  
16 we "do no harm" to emerging competition in markets which  
17 will hopefully address many of the same issues that are  
18 currently the topic of discussion in today's universal  
19 service fund, high cost fund reform discussion. Thank you.

20           CHAIRMAN KENNARD: Thank you. And last but not  
21 least, Chairman Pat Wood III.

22           MR. WOOD: Thanks for the invitation to be here.  
23 We're always glad to get out of the smoke-covered region of  
24 northern Mexico that we call Texas and come up to nice fresh  
25 weather up here. The air is just as hot, though, I think,

1 up here. And I've enjoyed watching you alls deliberations  
2 from afar and around the time.

3 We're going through the same deal in Texas, trying  
4 to do our intrastate fund. We need to do one. We need to  
5 do one badly. We had the live hearing. And Gloria, you're  
6 right. I think there's no substitute for hearing it live  
7 from these folks, a number of whom came down or their  
8 circuits came down to Texas to make a lot of the same  
9 issues.

10 I think just to cut to the chase as to the non-  
11 rural fund issue, you all got most, if not all of it right  
12 the first time. I think we need to bring this train on in  
13 to the station, and I certainly join forces with my  
14 colleagues on the Joint Board to help you all get that done.  
15 It should be done.

16 I think this will be an interim fund. The first  
17 fund should be set up. The structure is the most important  
18 thing to do the first time. The numbers are not. It  
19 needn't be perfect. I think anything above a B minus is a  
20 passing grade that everybody ought to be proud of.

21 Generation one of this fund will be a defensive  
22 fund which will address the parts of the non-rural carriers  
23 rate structures that truly are support for their high cost  
24 rural operations within the company. And these parts that  
25 are most subject to being competed away, particularly in

1 urban areas as competition comes into the market.

2 The offensive fund is generation two. And that's  
3 where we really address the proper quantification of the  
4 voucher, the shopping credit or whatever we want to call it  
5 that goes to the CLECs that go out there to the rural areas  
6 to compete. So, I think the sequence is more important to  
7 address. These eroding implicit structures are going to be  
8 assaulted before the need for the explicit voucher or waiver  
9 or subsidy is taken up in the rural areas.

10 So, I think we've got time to work on the model  
11 and get the numbers perfect. But the structure's important,  
12 I think, for the competitors to get into the business to  
13 know how it's going to play out. So, the biggest favor, I  
14 think we can collectively do for the industry in furthering  
15 competition is to say, "This is how it's going to look. The  
16 numbers will get crisper and better later on."

17 The cost models are the only way to go. It's like  
18 democracy. It's the worse form except for everything else.  
19 And everything else is called historic book embedded. If  
20 any of these folks out in the audience or their companies  
21 have gone through a probing, thorough rate review at the  
22 state level in the last 12 to 24 months, I would encourage  
23 you to use their embedded costs, otherwise the costs model  
24 is probably going to look better than a thoroughly rate  
25 reviewed embedded cost rate review would look. So, I would

1 encourage those parties to pick their poison.

2 The important issue and it's the one today, is the  
3 distribution of the dollars -- the Federal dollars portion  
4 among the high cost areas of the country. And I think that  
5 is -- that's an issue that we don't have to deal with at  
6 this state. I mean, we're really trying to deal with the  
7 same issues that we don't have other states to deal with.  
8 We've just got company.

9 So, it is a unique issue, and I'm glad to be able  
10 to sit here with you all and try to puzzle through. I'm  
11 pretty open-minded as to the proposals that a number of the  
12 parties have put out here. I think there are a lot of  
13 creative approaches that can get there. I will indicate a  
14 predisposition towards those that do allow states, unlike my  
15 own, the ability to get more money if they can't make it  
16 work because of their relatively small intrastate taxable  
17 base.

18 So, things that are -- mechanisms that allow for  
19 that kind of flexibility at the Federal Commission fund  
20 level, I think are ones that are -- ones I certainly will be  
21 interested in looking and learning more about from these  
22 folks here. Let's get on with it.

23 CHAIRMAN KENNARD: Thank you. Okay. We will get  
24 down to it then.

25 I will remind the panelists of two things. One is

1 please introduce yourself so that -- we won't introduce you  
2 here from the panel. And also, please keep your  
3 presentations to three to five minutes. But first, we will  
4 start with the -- an impartial overview of this issue from  
5 our own Jim Schlichting, who is Deputy Chief of the Common  
6 Carrier Bureau.

7 MR. SCHLICHTING: Thank you. Good morning.  
8 During the remainder of the day, you will hear and discuss  
9 possible changes in the Commission's plan adopted last year  
10 to provide free universal service support in rural, insular  
11 and high cost areas under Section 254 of the Communications  
12 Act.

13 I will give you a brief overview of the high cost  
14 universal service. Section 254 of the Communications Act  
15 directed the Commission to reform the existing system of the  
16 universal service support for high cost areas to make such  
17 support compatible with the emergence of competitive local  
18 telecommunication markets.

19 Pursuant to that directive, the Commission, in an  
20 order issued last May, acted on the universal service Joint  
21 Board's recommendation for implementing Federal universal  
22 service support for rural, insular and high cost areas.  
23 Full implementation of that plan for high cost areas certify  
24 larger telephone companies is currently scheduled to occur  
25 on January 1, 1999.

1           As background, high cost universal service support  
2 is currently achieved through a system of both implicit and  
3 explicit subsidies. In addition to the explicit subsidies  
4 such as the Federal high cost loop fund, Federal DEM  
5 weighting and universal service funds in certain states,  
6 there exists implicit subsidies in the form of  
7 geographically averaged rates, access charges higher than  
8 economic costs and a variety of other increased prices in  
9 both the interstate and intrastate jurisdictions.

10           In its universal service order last May, based on  
11 the Joint Board's recommended decision, the Commission  
12 decided to determine the total need for high cost support  
13 for a local service provider in a particular area, replacing  
14 both the explicit and implicit subsidies existing today in a  
15 two-step process.

16           The order defined high cost support requirements  
17 as the difference between one, before looking at costs  
18 reasonably incurred to provide quality service in a  
19 particular high cost area, and two, an amount computed on a  
20 nationwide basis representing the revenues the service  
21 provider should expect to receive directly from serving an  
22 end-user. Those revenues include, not only local service  
23 revenues, but also revenues from access, full service and  
24 various discretionary services.

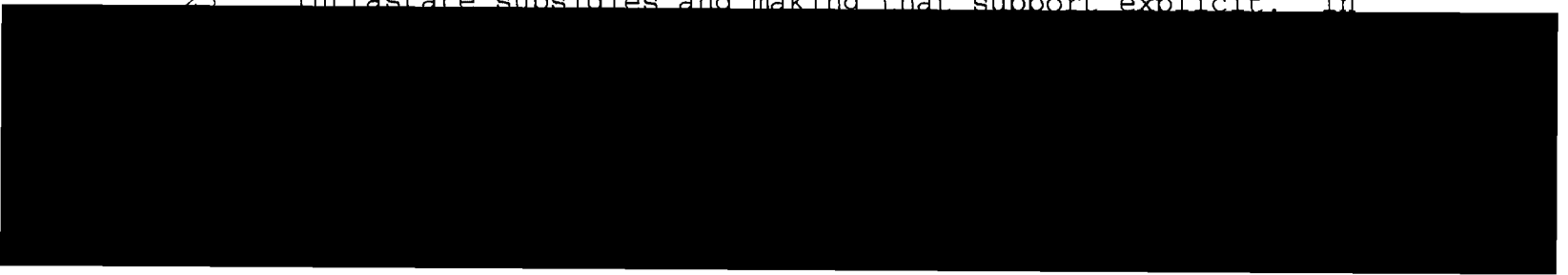
25           Based on the Joint Board's recommendation, the



1 Commissioner determined that costs should be forward looking  
2 costs, the costs of constructing the network to provide the  
3 supported services using current technology at today's  
4 prices. The Commission reasoned that use of forward looking  
5 costs would result in high cost support amounts that neither  
6 unfairly benefit nor unreasonably harm incompetent local  
7 telephone companies or their new competitors in providing  
8 supported services. It should also insure that the local  
9 service provider will have the incentives to invest in  
10 current technologies in high cost areas.

11 With regard to the relative roles of the Federal  
12 and state jurisdictions in implementing high cost universal  
13 service support, the Commission largely preserved the  
14 existing division of responsibility between the FCC and the  
15 states for providing support. Noting that state commissions  
16 regulate the intrastate rates that reflect implicit  
17 intrastate universal service support, the Commission decided  
18 not to attempt to identify the amount of implicit support  
19 existing in intrastate rates or to convert such implicit  
20 intrastate support into explicit Federal universal service  
21 support.

22 Instead, the Commission determined that,  
23 consistent with the provisions of the Act, states should in  
24 the first instance, be responsible for identifying implicit  
25 intrastate subsidies and making that support explicit. In



1 essence, the Commission found that the initial  
2 responsibility for implementing new high-cost support under  
3 the Act would be split among the jurisdictions. The FCC  
4 would make explicit, the implicit support existing in  
5 interstate rates, while the states would undertake the same  
6 tasks on the intrastate side.

7 Looking to the traditional separation of cost of  
8 supported network facilities between Federal and state  
9 jurisdictions, the Commission that 25 percent of the new  
10 high cost need was the FCC's responsibility, while 75  
11 percent of that need was initially was within the state  
12 purview representing existing intrastate implicit and  
13 explicit subsidies. This is what Commissioner Ness referred  
14 to earlier today as the placeholder pending further  
15 discussions.

16 Because under the new system, high cost need was  
17 no longer based on the embedded cost of loop plan, but on  
18 the difference between forward looking costs and expected  
19 revenues, the universal service order eliminated the special  
20 separations rule underlying the old universal service  
21 approach. This left the allocation of embedded cost between  
22 the jurisdictions to the general purpose separations rules.  
23 For effected incumbent local telephone companies that change  
24 would transfer a little more than \$200 million in embedded  
25 costs to the intrastate jurisdiction with full

1 implementation of the plan.

2 In line with its determination that Federal  
3 universal service support in the first instance would make  
4 explicit the implicit support existing in interstate rates  
5 and to prevent double recovery by local telephone companies,  
6 the Commission also decided in paragraph 381 in the  
7 companion access reform order, that the amount received by  
8 incumbent local telephone companies in interstate high cost  
9 universal service support would be used to reduce interstate  
10 access charges.

11 Recently, the Commission issued a report to  
12 Congress on universal service. In that, the Commission  
13 decided to revisit the 25 percent Federal allocation  
14 responding to concerns expressed by various parties that the  
15 25 percent Federal allocation would not be enough to permit  
16 sufficient support for universal service, and might provide  
17 less than current interstate high cost support in some  
18 areas.

19 In its report, the Commission concluded that a  
20 strict across-the-board rule that provides 25 percent of  
21 unseparated high cost support to areas served by large local  
22 telephone companies, might provide some states with less  
23 total interstate high cost support than currently provided.  
24 It said that no state should receive less interstate high  
25 support than it currently receives.

1           The Commission also found that a state may require  
2 greater assistance than it currently receives from  
3 intrastate support to maintain affordable rates. As one  
4 example, the Commission said that where a state proposed to  
5 reform its own universal service mechanisms and collect much  
6 of what is currently implicit intrastate universal service  
7 report as is possible and consistent with maintaining  
8 affordable rates. Additional Federal universal service  
9 support should be provided where the state mechanisms in  
10 combination with baseline Federal support is not sufficient  
11 to maintain rates at affordable levels.

12           It also said it would consider in its  
13 reconsideration proceeding any other circumstances under  
14 which additional Federal support would be appropriate.

15           That, Mr. Chairman, is sort of the background of  
16 what the Commission has said with regard to high cost  
17 universal service support. You, in this hearing, along with  
18 the other Commissioners will begin the next chapter. Thank  
19 you.

20           CHAIRMAN KENNARD: Thank you, Jim. We'll begin  
21 now with our first panelist. Mr. Tom Reiman from Ameritech.

22           MR. REIMAN: Good morning. My name is Tom Reiman.  
23 I'm senior vice president of public policy at Ameritech.  
24 With me this morning is Dick Kolb, director of universal  
25 service in Ameritech and our subject matter expert.

1           Though I'm mindful of the thousands of pages of  
2   incredibly complex comments, plans, studies and formulas  
3   that have been filed with this Commission on the subject of  
4   universal service and the high cost fund, and I'll try not  
5   to add to the complexity.

6           Ameritech's message is quite simple this morning.  
7   Stay the course with a smaller fund, continuing the pressure  
8   on the states to carry their share of the burden. Contrary  
9   to much of the rhetoric flowing around Washington on this  
10   topic, the Commission's original proposal of 25 percent/75  
11   percent jurisdictional split funded by interstate revenues  
12   is the best plan currently before the Commission. It  
13   maintains the current Federal level of responsibility while  
14   allowing the states to come forward with their own  
15   innovative approaches for their share of the total solution.

16           You know, 14 years ago as associate general  
17   counsel of the newly created Ameritech, I spent months here  
18   in Washington negotiating, debating and arguing with Burt  
19   Halprin, then Chief of the Common Carrier Bureau, on what  
20   the first Federal access charges should be like. And guess  
21   what? The issues weren't much different than they are  
22   today, making implicit subsidies explicit, recovering  
23   subsidies in a competitively neutral manner, minimizing rate  
24   increases to end users, and keeping telephone service  
25   affordable and universally available.

1 Underlying the debate then as now, were four basic  
2 tenants. Subsidies and free market competition are natural  
3 enemies. Subsidies should be collected in a competitively  
4 neutral manner. End user customer rate increases are  
5 politically unpopular. And it's the public policy of this  
6 nation to keep telephone service affordable.

7 Now, how does this history and these figures apply  
8 to universal service and the high cost fund, in particular?  
9 Well, let me answer it this way. If we were starting with a  
10 clean sheet of paper, we would not design the system we have  
11 today, that this Commission and the state commissions are  
12 trying so hard to make work.

13 I submit that this Commission would create a plan  
14 designed to deliver a set of desired results. Affordable  
15 local service. And by the way, our studies show that  
16 affordable toll rates are interval to high subscribership  
17 levels. Robust competition in all markets, increased  
18 infrastructure investment leading to new and innovative  
19 services. Competitive and investment are driven by  
20 economically rational pricing. Simply stated, local rates  
21 must at least cover their costs.

22 Now, once local rates are set to cover costs, than  
23 affordable service is maintained by targeting subsidies only  
24 to customers who can't afford to pay the full rate.

25 We would not design a system that subsidizes 60 to

1 70 percent of the cost of telephone service of an American  
2 officer's Beaver Creek, Colorado condominium. We would not  
3 design a system that subsidizes rates that have been kept  
4 far below any rational definition of reasonableness like  
5 five dollars a month where the statewide average is closer  
6 to \$12 a month.

7           However, we don't have a clean sheet of paper. We  
8 have a huge and complex system in place. But this  
9 Commission and the state commission should keep these  
10 desired results firmly in mind, and all decisions should  
11 drive the system closer to, not further away from the  
12 desired results.

13           Using this model, it's clear I submit, that this  
14 Commission is on the right track, staying with its current  
15 proposal, based on a 25/75 percent jurisdictional split,  
16 funded on the basis of interstate revenues. Not only is  
17 this consistent with historical separations formula, but  
18 more importantly, it keeps in place the incentive for states  
19 to fix their part of the problem, which is setting  
20 economically rationale local rates.

21           Expanding the Federal fund to cover more of the  
22 subsidies is a move in the wrong direction. It sends the  
23 wrong direction. It does not move closer to the desired  
24 results.

25           As Chairman Kennard said, and I quote, "The vast

1 bulk of universal service support today is generated and  
2 spent within the boundaries of each state. This means the  
3 real key to subsidy reform is state rather than Federal  
4 action."

5 Now, Ameritech has worked in lowering its costs.  
6 And some of our state commissions are national leaders in  
7 moving toward economically rational local rates. As a  
8 result, Ameritech is the only RBOC that receives no high  
9 cost support today. Don't punish our customer for our  
10 leadership position by asking them to substantially increase  
11 the amount of subsidy they send out of state.

12 Let's not move backward. Challenge the industry  
13 and policy makers in the states to fix local prices so that  
14 residential competition can flourish. Then, build on that  
15 base to refine the system so that subsidies only go to those  
16 who truly can't afford pay cost-based rates.

17 This is what's happening around the world, in  
18 other nations in Europe, Canada, Mexico, New Zealand and the  
19 Philippines among others, tackle this issue. Let's not fall  
20 behind.

21 To quote from the ad from the current movie  
22 Godzilla, size does matter. Only with subsidies, I submit,  
23 smaller is better. Thank you.

24 CHAIRMAN KENNARD: Thank you. Mr. Irvin?

25 MR. IRVIN: Thank you, Mr. Chairman and members of



1 the Committee. My name is Jim Irvin. I'm chairman of the  
2 Arizona Corporation Commission. I've got a ton -- as a good  
3 politician, I've got a ton of paperwork here, which you've  
4 all got in front of you, so I'll try to paraphrase so we can  
5 get through and stay within the time limits.

6 First of all, I will not be here for this  
7 afternoon's panel due to my schedule. I have a early flight  
8 out. I do have with me an attorney from our legal division,  
9 Ms. Maureen Scott, who can certainly answer any of the  
10 panel's questions they may have with regard to our thoughts  
11 and ideas this afternoon.

12 I also want to thank the panel and all the people  
13 from the FCC, as well as the members of the panel, who have  
14 taken their time to look at this issue on how the difficult  
15 task before them.

16 What I do want to point out something about our  
17 proposal is, it is a lot different than what you're saying  
18 today from the other people up here. Our proposal is  
19 something that is an alternative, and it's not a  
20 comprehensive universal service fund plan.

21 We want to look at our issue as it does deal with  
22 the distribution allocation of the Federal universal service  
23 funds. However, it is something that an alternative and a  
24 partial alternative deal with a very sensitive problem that  
25 we have in Arizona.

1           And I have taken every opportunity that I can to  
2     make people aware of this opportunity. And that is, the  
3     idea to provide telecommunication services to all Americans,  
4     not just those who happened to have the infrastructure  
5     brought to them. So, please when you look at this, look at  
6     this as an alternative and some other ideas in order to help  
7     develop our infrastructure and system that we have.

8           The overlooking theme that I would like this  
9     Committee to remember is that we have 50 different states  
10    and/or regions here in the United States. And this is not a  
11    one glove fits all approach. Each state must be noted. And  
12    you'll note that in my various exhibits that I have attached  
13    with my testimony -- I'll go through those.

14           Our Exhibit A shows the geographical regions and  
15    the demographics that face the State of Arizona and why this  
16    is a rising problem or problem of great concern, not only  
17    amongst myself as a Chairman, but amongst my fellow  
18    Commissioners there on the Commission, Commissioners  
19    Jennings and Kanasek.

20           Our proposal that we're looking at is an idea  
21    that's going to address an area that has not yet been looked  
22    at. And that is to address the area of the unserved and  
23    underserved people throughout the State of Arizona. And we  
24    know there are people throughout this country that have  
25    that. And those our customers -- those are Americans who

1 cannot get telephone service because they cannot afford to  
2 pay the charges associated with having the facilities or the  
3 plants extended to their homes. We cannot ignore this  
4 problem any longer as state and Federal regulators. We must  
5 be able to address this problem head on.

6 My remarks today will be broken down to basically  
7 three parts. First of all, identifying the problem of the  
8 unserved and underserved, why the problem exists, and some  
9 thoughts and ideas we can do to address it.

10 What I mean in defining the unserved areas and  
11 underserved areas, first, the underserved customers are  
12 those customers I'm referring to without telephone service  
13 who are located outside the exchange boundaries of an  
14 incumbent local carrier exchange. And when I refer to  
15 underserved areas, I'm talking about citizens and consumers  
16 who are not able to get telephone service within the  
17 exchange boundaries of an incumbent exchange carrier.

18 But the one underlying program that both of these  
19 customers have is, they cannot afford to pay for line  
20 extensions or construction charges associated with extending  
21 facilities to their homes.

22 A lot of the data that we have received have been  
23 presented to through Citizens Utility. They operate three  
24 companies in the northern part of our state. They operate  
25 the White Mountain telephone service area. They service the

1 Navajo Communications and Citizens Rural Telephone Company.

2 Exhibit B of our program or my comments, contain a  
3 random sampling of line extension estimates that were given  
4 by Navajo Communications to consumers in its area. And it  
5 ranged from a cost of \$83,160 to a low of \$18,480, with an  
6 average charge to citizens in that area of \$44,700 for these  
7 people to obtain services just to put a phone in their  
8 areas.

9 Exhibit C of my testimony shows the actual letters  
10 to the consumers provided by citizens, which provide a  
11 relevant back-up and data and the estimates provides. In  
12 Exhibit D of the information provided, you'll note that the  
13 White Mountain Telephone list various underserved areas  
14 within its area -- within its exchanged areas. And it gives  
15 a number of dwellings, the square miles involved and the  
16 request for services reached.

17 And if you will note in Exhibit D -- if you care  
18 to go on the bottom of page 2 in Exhibit D, it indicates  
19 that in this area of the White Mountains, there are 691  
20 known customers in this area of which 288 of these people  
21 have requested service. And of that 288, only 74 have been  
22 able to obtain line extensions required. And that's because  
23 of the cost we have here, which really boils down to of  
24 those people, only 11 percent are able to get telephone  
25 services.

1           You'll also note that Exhibit D will show that the  
2 average cost in this area of the White Mountains ranges for  
3 line extensions from \$14,412 to a low of \$314. Exhibit E of  
4 our testimony or my testimony here that we filed with you,  
5 will show the numerous complaints received by the  
6 telecommunications industry.

7           Am I running out of time, Mr. Chairman?

8           CHAIRMAN KENNARD: If you could just sum up, I'd  
9 appreciate it.

10          MR. IRVIN: Okay. I will try to sum up in that,  
11 this program in moving to it, and we've got a lot of  
12 exhibits there, but what we're really asking for is to  
13 consider this program as an alternative and look at it and  
14 possibly block grants as a way of meeting line extension and  
15 meeting this, because it's an area that is not met by  
16 existing programs such as your lifeline programs, your hook-  
17 up programs and such like that. They talk about monthly  
18 recurring revenues. Our problem is talking in trying to  
19 meet the needs of the people that do not get the telephone  
20 services.

21          And Mr. Chairman, I think if you'll note as  
22 principle number 8 that you outlined in your February 9  
23 statements, that the was one of the principles, sir, that  
24 you underlined, that our program is trying to meet those  
25 needs that we have for the people. And we would ask the

1 Board to seriously consider this because this is a problem.

2 While it may not be a problem in Ameritech  
3 regions, it is certainly a problem in the midwest, the west,  
4 and I would suspect many parts of the Appalachian mountain  
5 regions. And we need to get these folks with telephones and  
6 get the service so they at least have the opportunity to  
7 make the calls necessary.

8 Thank you, Mr. Chairman.

9 CHAIRMAN KENNARD: That's very helpful. Thank  
10 you. Mr. Cooper?

11 MR. COOPER: Thank you, Mr. Chairman. My name is  
12 Mark Cooper. I'm director of research at the Consumer  
13 Federation of America.

14 I always like to start by pointing out that I had  
15 the pleasure of filing comments in the original Michigan  
16 petition, which was a universal service docket opened up  
17 immediately after the break-up of the national telephone  
18 monopoly. And since then, I've testified about 50 times at  
19 the federal and state level.

20 In fact, on universal service, I've testified a  
21 dozen times just since the passage of the Act in states from  
22 Washington to Hawaii to Texas to New Jersey. And my message  
23 to you today is going to be simply the same message I will  
24 deliver tomorrow in North Carolina in a universal service  
25 docket.

1           First, you do not need to hurry the creation of  
2   the large universal service fund for the large LEC's,  
3   because competition has not made it necessary. We don't  
4   have much competition. It would be the cruelest of ironies  
5   to increase rate payers bills to support universal service  
6   in the name of competition when competition is not strong  
7   enough to put the downward pressure on prices that was the  
8   primary purpose of the Act. You have the time you need to  
9   work these issues out.

10           Second of all, when you find you need a fund,  
11   analyze the net worth in a sensible manner. And here I  
12   agree with the comments of the spokesman from Ameritech,  
13   although I don't think the road leads to the same place.  
14   But I think you started down the right road. Adopt  
15   forwarding looking efficient costs for pricing. Stop  
16   building in all these historical inefficiencies that have  
17   crept into these models as time has gone forward.

18           Second, the FCC has declared time and again that  
19   the loop is a shared cost, and revenues from all the  
20   services that use the loop must be included in the  
21   calculation in universal service support. There should be  
22   no free rides by any service on the loop, which all services  
23   use.

24           Third, the FCC has recognized that the universal  
25   service area should be the same as the unbundled network

1 element area because that is where we will create  
2 competition, and that is where we will create the need for  
3 universal service.

4 Follow those three policies and you will have a  
5 manageable, sensible fund that will be easy to raise, and it  
6 will provide support to the areas that are truly high cost  
7 where they don't generate sufficient revenues to cover their  
8 costs.

9 Third, when you find you need to raise those  
10 funds, raise them the way the Act said, in contributions  
11 from telecommunication service providers. Absolutely clear  
12 in the Act, it is the providers who use the network to sell  
13 services to create profits and value who are supposed to  
14 make the contributions to universal service.

15 The FCC started down that path in its original  
16 decisions on this. It should stick to those paths. And you  
17 have been fighting a very tough fight with them about how  
18 those monies should be raised. You are to be commended for  
19 sticking to that fundamental principle.

20 Finally, if you want to put a line item on  
21 consumers bills, and they have become terribly popular these  
22 days. A dollar for schools and libraries. A dollar for  
23 local number portability. A dollar for the pixie. A \$1.50  
24 for the second line for residential. By the time we're  
25 done, those dollars at the bottom of the bill start to mount



1 up. And we have begun, as you know, to raise that concern  
2 very strongly.

3 If you think you need a line item on my bill for  
4 universal service, than you ought to back it out of the  
5 Federal subscriber line charge. The Federal subscriber line  
6 charge is a core service defined to be supported by the  
7 universal service fund. That would be consistent with the  
8 Act, and that position has been put forward by a number of  
9 consumer advocates.

10 You can make room for universal service funds  
11 without raising my bill by treating it as an offset to that  
12 subscriber line charge. When the Telecommunications Act was  
13 passed, consumers were promised prices that would go down,  
14 choices from competitors and the universal service fund that  
15 could be created without raising our bills.

16 Stay the course on the fundamental decisions you  
17 have made, and we may, in fact, get to that outcome. Thank  
18 you, Mr. Chairman.

19 CHAIRMAN KENNARD: Thank you, Mr. Cooper. Ms.  
20 Baldwin?

21 MS. BALDWIN: Thank you, Mr. Chairman. I am Susan  
22 Baldwin, senior vice president of Economics and Technology,  
23 Inc. ETI's a consulting firm specializing in  
24 telecommunications economics, regulation, management and  
25 public policy.